

Appendix 6: Funding Sources

Capital Improvement Funding Sources

Funding capital and major maintenance projects is a challenge faced by all governmental entities charged with developing and maintaining facilities and infrastructure. Due to the economic downturn and a related decline in governmental revenues, capital and major maintenance expenditures have been constrained for the past several years. Although funding has been constrained, an existing backlog of projects with previous allocations of funding has allowed capital and maintenance development to continue.

This plan is focused on the financing of capital projects which will be considered for development within the next five years. The funding sources identified are those which are known and have historically been used to develop capital projects. The following sub-sections identify funding the sources used in this plan.

Facilities Project Funding Sources – General Services Agency

There are a variety of funding sources used to pay for the cost of developing County facilities. The Board of Supervisors budget policies emphasizes development of projects which are 100% revenue offset or have their own funding source. County functions which are enterprise funds, such as the County Airports and County Golf Courses are expected to utilize their own funding for capital and maintenance improvements. By Board policy, Library projects are to be funded with 50% of the cost coming from the community in which the library improvements are proposed.

Public Facility Fees (PFF) provides funding for five areas being General Government, Law Enforcement, Fire Protection, Libraries and Parks. Public Facility Revenues are dependent upon fees charged to new development projects and can only be used to fund new facilities needed to accommodate growth. They cannot be used for operations or maintenance expense. The decline in development activity due to the economic downturn has caused revenues from these fees to fall by 50% from their high levels in the middle of the last decade. Current annual PFF revenues total about \$1 million for all 5 functional areas. PFF not used during the year is applied to PFF reserves. There is approximately \$5 million in PFF reserve funds. The next 10 or more years of future revenue from Library Public Facility Fees has been committed to finance the Atascadero and Cambria library projects identified in the proposed Five Year CIP. The General Government PFF revenues are committed to pay for a portion of the debt financing for the New Government Center.

The balance of Capital Project reserve funds fluctuate with use and replenishment. The amount of funding set aside in capital reserve accounts has been reduced concurrent with other reductions made to balance the County budget. At the beginning of FY 2012-13 the Capital Project reserve fund balance

was about \$14.5 million. Approximately \$8.2 million of this reserve is designated for specific projects, including the Women's Jail and Juvenile Hall Expansion projects shown on the proposed Five Year CIP. The General Government Building Reserve has about \$13.7 million in funding with \$340,000 being designated for specific replacement projects. A portion of this reserve may be used to fund capital projects recommended in the FY 2013-14 budget.

The following table identifies funding sources matched to the functional areas for projects. The funding sources in the table are those that are most commonly applied to capital and major maintenance projects for the facilities developed within the functional area.

Functional Area	Funding Source
Airports	Federal Aviation Administration grants and entitlements Passenger Facility Fees Customer Facility Fees Airport Enterprise Revenues
General Government	Capital Project Reserves General Government Building Replacement Reserves General Government Public Facility Fees Depreciation charges General Fund Grant funds when available
Golf Courses	Debt obligations financed with Golf Course Enterprise Funds Golf Course Enterprise revenues Grant funds when available
Health and Social Services	Health operating budget DSS operating budget Capital Project Reserves General Government Building Replacement Reserves Depreciation charges General Fund Grants when available
Library	Library Public Facility Fees Library Reserves Library operating budget 50% funding from the community
Parks	Parks Public Facility Fees Quimby Fees Parks Reserves Parks operating budget Grant funding when available

Public Safety	Law Enforcement Public Facility Fees Fire Protection Public Facility Fees Operating budgets – Sheriff, Fire, Probation District Attorney Capital Project Reserves Asset Forfeiture Funds General Fund Grants when available Funding authorized by SB 900 and SB 8 for local jail and juvenile hall projects (one time)
Public Works (for County facilities)	Capital Project Reserves General Government Building Replacement Reserves General Government Public Facility Fees Depreciation charges General Fund Grant funds when available

Infrastructure Project Funding Sources - Public Works Funding

Public works infrastructure requires a multitude of funding sources to advance projects to final construction. The County seeks out several funding opportunities for project implementation. Nonetheless, there are certain core funding sources from which Public Works will advance projects. These are broken down into particular functional areas as follows.

Water Systems – Improvements are dependent on rates and charges to system customers in order to develop capital improvements to the system. On large systems such as the Nacimiento Pipeline or Lopez Water supply, the charges relate to the public agencies. On smaller water systems, improvement funds are developed through bimonthly water rate charges and occasional system grants or loans from State or Federal Sources.

Wastewater Systems – These improvements are also dependent on rates and charges to the customers with assistance via grant or loan programs from State and Federal Sources.

Flood Control – Under adopted Flood Control District Policy, capital improvements are to be paid for by the benefiting properties. Recent work in Cambria or along the Arroyo Grande Channel was initiated under an Assessment Districts. In both cases, these initial funding leveraged additional funds through Federal or State grant programs under FEMA and Prop 1E funds respectively. Other localized drainage projects have been done through discretionary funds provided by the General Fund. There may be an opportunity for a portion of built up reserve funds under the General Flood Control District to be redirected by the Board of Supervisors towards specific projects in the future.

Transportation – Transportation projects are funding primarily through three sources. The first is under Federal Transportation Grant Programs for bridge replacements or road safety improvements. The second is under programming of State transportation funds for regional projects through the San Luis

Obispo Council of Governments. And third, under the County Road Improvement Fee programs, funding is established to mitigate increased traffic demand from development.

Debt Financing

The use of debt to finance needed capital improvements is another potential source of funding for both facility and infrastructure projects. Debt financing has been used to finance facilities, such as the County Government Center as well as infrastructure projects, such as the Vineyard Drive Interchange in Templeton and the Los Osos Wastewater project. The County's Debt Management Policy approved by the Board of Supervisors in December of 2010 identifies the criteria and process for the issuance of debt for a variety of uses, including the financing of capital improvements. Capital Improvement projects with a non-recurring cost of less than \$100,000 and/or useful life of less than five years are not eligible for debt financing.

Debt financing utilizes the issuance of bonds. For capital projects, the proceeds from these bonds are used to finance capital improvements. The policy requires that the term of the bond not exceed the useful life of the improvement. Payments are made at regular intervals to pay down the debt.

General Obligation Bonds and Limited Obligation Bonds, Special Assessment Bonds and Certificates of Participation and Lease Revenue Bonds are generally the most common types of debt financing for infrastructure and facilities improvements. Mello Roos Bonds are also used to finance community facilities.

A key consideration of the policy is to eliminate, to the maximum extent possible, direct or indirect negative impacts to the General Fund.

Board of Supervisors adopted Budget Development Policies for Capital Projects

The Board of Supervisors has adopted specific policies that guide the budgeting for capital projects. The policies are included in the Budget Development Policies, annually reviewed and approved by the Board at the beginning of each annual cycle for the preparation of the County budget. Below is the section of the Budget Development Policies that specifically address capital projects.

Capital Project Policies

Review and evaluate projects based upon their cost, scope, countywide significance, correlation to facility master plans, and relation to communitywide objectives and results.

The following criteria shall be used in evaluating projects:

1. Ability to address a critical need or threats to health and safety
2. Connection to mandates or legal requirements
3. Existence of non-General Fund funding source(s)
4. Impact on General Fund or other budgetary impacts to existing services due to costs for staffing, operations and maintenance
5. Ability to address essential maintenance or repair needs to existing assets

6. Impact to service levels
7. Potential to save water/energy
8. Level of consistency with County plans, goals and priorities

Proposed projects shall include the project's anticipated impact on current and future operating costs. Projects will be recommended for approval that are 100% revenue offset or have their own funding source (such as golf courses and Lake Lopez), which meet one or more of the above criteria and would be reasonable in terms of scope or cost.

Projects should utilize energy and resource efficiencies such as "green building" (LEED) and Low Impact Development (LID) techniques and strategies to reduce ongoing utility and maintenance costs.

Library Projects: Consider funding new library buildings or major improvements to existing libraries only if at least 50% of the cost of the project is provided by the community in which the facility is located. The funding required from the community may be comprised from a variety of sources, including grants, school districts, special districts, cities, community group funding, private donations, or fees generated for specific use in libraries. The County's portion of this funding formula will be financed from the Library budget (Fund 1205), grants, gifts, the General Fund or fee revenues generated for specific use in libraries.

Maintenance Costs: Consider cost of ongoing maintenance before recommending capital projects, acquisition of additional parklands or beach access way projects.

Master Plans: Consider approving projects included in master plans if they have their own funding sources or if they are requested from other sources which identify an operational need for the facility.

Grant Funded Capital Projects: For grant funded projects, when a County match is required, budget only the County share if receipt of grant money is not expected in the budget year. If there is a reasonable expectation that the grant revenue can be received during the budget year, budget the entire project amount including revenues.

Encumbrances: The Auditor-Controller is authorized to encumber capital project money appropriated for a specific capital project at the end of each fiscal year, if work has been undertaken on that project during the fiscal year. Evidence that work has been undertaken would be in the form of an awarded contract or other item upon which the Board of Supervisors has taken formal action.

Phasing of Large Projects: For capital projects which will be undertaken over several fiscal years, develop full project scope and costs in the initial year.